

## ADMINISTRATIVE TECHNOLOGY CENTER 5/99 REPORT SUMMARY

### **Program Change Controls**

Approximately 30% of the program changes we tested were not properly authorized to go into production. Weak controls may allow unauthorized changes to County systems resulting in processing delays, unpredictable processing results, and fraud. Program change control procedures for the County's human resource and financial systems should be strengthened.

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### **Virus Detection**

ATC has implemented general scanning procedures to detect viruses on its servers and desktops. These procedures appear to be adequately detecting viruses before they cause damage to the County's systems and information.

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### **Access Violation Reporting**

The security software program for the County's human resource and financial systems produces access violation reports daily. While the reports are being reviewed, follow-up procedures are not formally documented, and do not include notifying appropriate management. County Security Standards suggest that security incidents be carefully documented and reported to appropriate department management for review. Security breaches may not be detected without proper follow-up procedures.

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### **Computer Inventory**

While each County department is ultimately responsible for the property associated with its department, ATC has procedures in place that facilitate tracking of computer equipment by its client departments. However, 19% of the client inventories tested were found to be incorrect. Furthermore, no receipts were obtained from Surplus for property disposed of over the last year. ATC should ensure the accuracy of its inventory data and should request a delivery receipt for items taken to Surplus.

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### **Disaster Recovery Planning**

A disaster recovery plan is designed to help in resuming data center operations within a reasonable time after disaster. Although arrangements are being made with another entity to process payroll checks, a full disaster recovery plan, which includes the networks and the County's financial system, has not been developed. As a result, ATC does not have assurance it can recover from a major disaster or disruption in data processing capability. ATC should develop a disaster recovery plan.

## **CATHOLIC SOCIAL SERVICES OF CENTRAL AND NORTHERN ARIZONA – SPECIAL REQUEST 1/99**

We have completed agreed upon fiscal monitoring steps for Catholic Social Services of Central and Northern Arizona (CSSCNA). Our work was limited to steps #13 and 14 of Human Services' Fiscal Monitoring Points for CSSCSN. These steps are:

- Review CSSCNA's cost allocation plan for compliance with cost principles (OMB Circular a-122).
- Review Head Start cash balance and interfund due to/due from to verify that Head Start is not financing cash flow problems of other programs.

This request for assistance was initiated by the Human Services Financial Services Administrator. The following narrative describes our findings and conclusions.

### **FINDING No 1:**

CSSCNA's cost allocation plan for FY 1998-99 complies with OMB Circular A-122 cost principles. A-122 is the governing guide non-profit organizations.

#### Discussion:

CSSCNA has established the following indirect cost pools:

- Accounting
- Administration
- Management Information Systems
- Public Relations

Allocation of all four indirect cost pools is allowable and reasonable. The Public Relations office is responsible for internal communications, such as staff newsletters, and external communications, including annual reports, brochures, and newsletters. Costs of fund raising are segregated in the Development department and are not included in the direct or indirect allocations.

### **FINDING No. 2:**

A \$420,337 working capital cash advance provided to CSSCNA was reasonable in relation to actual Westside Head Start expenses reported for the first five months of the current fiscal year and in relation to annual budgets. We did not find evidence the advance has been used to cover working capital needs of other programs.

#### Discussion:

According to Department of Human Services guidelines, the initial payment must not exceed one-sixth (1/6) of the total year reimbursement amount without the approval of the Human Services Department Director.

Cash advances should be used to provide working capital only for the Westside Head Start program.

Based upon estimated direct expenses for July and August 1998, CSSCNA requested a cash advance of \$420,327. CSSCNA's actual, unaudited direct expenses for July and August total \$382,143. The variance of \$38,184 represents 9% of the cash advance.

CSSCNA received the County advance September 3. Direct expenses for September and October 1998, reduced for contributed services and materials, total \$581,520.

CSSCNA did not record due to/due from transactions between Westside Head Start and other CSSCSN programs.

## **CLERK OF THE BOARD OF SUPERVISORS 1/99 REPORT SUMMARY**

### **1. BOARD OF SUPERVISORS MEETINGS**

The Clerk's office effectively operates its two main processes, production and distribution of Board meeting agendas and production and retention of Board meeting minutes, in a professional manner with dedicated personnel.

### **2. FIXED ASSETS**

We were unable to locate and identify nine of sixteen Clerk's office fixed assets, selected from the Department of Finance's (DOF) fixed asset records. These items are computer equipment valued at \$43,937. The Clerk's office fixed asset listing also includes most fixed assets assigned to the Board of Supervisors. Inadequate safeguards over fixed assets increases the risk of loss, and or misuse, of County resources. The Clerk's office should reconcile its fixed assets to DOF records, as soon as possible, and perform annual fixed asset inventory reconciliations as required by County policy.

### **3. CASH RECEIPTS**

The Clerk's office accepts payments (cash and checks totaling \$3,000 per year) for photocopies, licenses, and fees but has not established adequate financial controls. Entries are not consistently made to record cash receipts when first received, therefore, records are not maintained that can be periodically reconciled. Additionally, duties over cash receipts processing are not adequately segregated. Inadequate controls over cash receipts increases the risk that County resources may be misdirected. The Clerk's office should record all cash receipts on a log, assign the functions of cash receipts/deposit preparation and records reconciliation to separate employees, and reconcile internal records to Treasurer's Office and DOF financial records.

## CLERK OF THE SUPERIOR COURT – REVIEW CASH 6/99

### Summary

Overall, we observed that General Accounting has made progress in preparing bank account reconciliations. Reconciliation of liabilities detail data with general ledger balances is in a preliminary stage of completion and is subject to change. A report of asset and liability reconciling items is not clearly organized and is being revised by Fred Artus with expanded descriptions and explanations. The following comments relate to specific reconciliation areas and suggestions for future review.

### Bank Account Reconciliations:

General Accounting has stabilized the unidentified differences between bank balances and general ledger balances. Changes to the unidentified differences are reconciled each month. Total bank account balances exceed general ledger balances by a net amount of \$1.7 million.

### RFR Liability Accounts Reconciliations:

Recently, RFR general ledger liability account balances were approximately \$275,000 greater than the sum of the detail. As explained by General Accounting, timing differences in processing detail databases and general ledgers were responsible for much of the initial difference. An additional difference occurred when a group of checks was not simultaneously voided and reissued in general ledger postings. Correcting for these items, COSC reports RFR general ledger balances now exceed the detail database total by approximately \$7,600.

### Continuing Issues:

The following items represent open issues for General Accounting:

- According to General Accounting, detail data of several RFR liability accounts reported in the general ledger is not currently produced by COSC's information system. Obtaining and reconciling detail data with general ledger balances is likely to cause the \$7,600 unidentified difference to change by an undetermined amount. General Accounting intends to prepare several back-to-back reconciliation reports over the next few months with assistance from the Information Technology Group (ITG). These reports will be used to identify a stable liability difference.
- A schedule of total COSC assets compared with liabilities should be prepared in order to determine if available assets balance with recorded liabilities. All RFR, Child Support and other liabilities should be included in the schedule. As of March 31, Child Support liabilities exceed assets by \$287,000. A combined schedule of assets and liabilities should clearly identify a total net deficit or surplus.
- The COSC schedule of "Consolidated Cash Variance As Of March 31, 1999" contains adjustment amounts that should be defined and explained in order to make the schedule more meaningful. We found the schedule difficult to

understand because of incomplete captions and descriptions. General Accounting is currently working to improve the report's format and descriptions.

**Recommendation:**

We recommend that COSC General Accounting and ITG continue to reconcile the bank and liability accounts and to improve the report presentation of combined reconciling differences for cash, other assets, and liabilities.

It would be useful for Internal Audit to examine underlying documentation and review progress of reconciliation reports. Possible strategies for follow-up include:

- Scheduling a formal review by Internal Audit in six months or other appropriate time interval.
- Scheduling a follow-up review to coincide with the MAS review we will conduct in May-June, 2000.

# COMMUNITY DEVELOPMENT DEPARTMENT 2/99 REPORT SUMMARY

## Effectiveness of Program Operations

### **1. REVIEW OF DEPARTMENT PROGRAM OPERATIONS**

- A review of project support files found the Community Development Department (CDD) to be in compliance with controls designated in the Department's administrative and procedure manuals.
- Procedures and internal controls are in place, and are operating effectively, to ensure objectivity in the Community Development Advisory Committees' (CDAC) awarding of funded projects.
- A review of CDD administrative expenditures disclosed that payments for goods and services appear to be reasonable and necessary for program activities.
- During January 1998, CDD initiated improvements to the Drawdown Process (advances on Federal cost reimbursements) minimizing annual interest costs.

## Safeguarding of Resources

### **2. FIXED ASSETS**

Fixed assets selected for testing were both identified and physically observed. However, office workstations purchased in April 1998, costing \$4,700, were not listed in the system. Weaknesses in asset controls can increase the potential for undetected loss of County property. CDD should complete authorized Department of Finance (DOF) fixed asset forms to rectify the above situation.

## Information Technology

### **3. GENERAL CONTROLS**

CDD's main information system used to perform drawdowns of grant funding from HUD is owned, operated, and maintained by the Federal HUD office. We reviewed general controls; including system security, proper segregation of duties, backup and recovery, and physical security. We found weaknesses in the following areas: segregation of duties; backup and recovery; and systems security. Management should strengthen controls in these areas to protect County data and systems from loss, unauthorized changes, and potential business interruption.

## Benchmarking

### **4. BENCHMARKING TO OTHER COUNTIES**

A comparison of Maricopa to other counties disclosed that the performance of CDD ranks favorably in relation to Community Development Block Grants (CDBG) and HOME administrative expenditures (detail discussion, including graphs, follow in this report).

## **COUNTY ADMINISTRATIVE OFFICER 3/99 REPORT SUMMARY**

### **1. EMERGENCY PROCUREMENTS**

Our examination of County emergency procurements over \$25,000 found 15 (\$73.9 million) made since July 1, 1997 that do not appear to meet emergency conditions, as defined by the Maricopa County Procurement Code. Eight (\$72.4 million) were used to extend various expired Maricopa Integrated Health System (MIHS) medical services contracts; five retroactively up to 14 months. We also found internal control weakness within established procedures. Inappropriate use of the County's emergency procurement process bypasses Board of Supervisors review and can result in increased costs. The CAO should work with departments to strengthen internal controls over the emergency procurement process and ensure that such procurements are only used under appropriate conditions.

### **2. UNPAID SPECIAL MEDICAL SERVICES BILLINGS**

Local cities owe the County \$992,000 for special medical services, provided by MIHS to jail inmates, from July 1996 through January 1999. The charges have been billed by MIHS, in accordance with established IGA's, but the cities have refused payment. MIHS has not yet pursued recovery through legal means. If not collected, the unpaid special medical services balance represents lost County revenue that will negatively impact the County's financial condition and operations. The MIHS Business Office should seek recovery of money due from cities, through the process outlined in Maricopa County Policies and Procedures #F2501, and coordinate recovery efforts through the County Attorney's Office.

### **3. LOBBYIST AND CONTRACT ADMINISTRATION ACTIVITIES**

Our review of the CAO office's lobbying function and contract administration activities found no exceptions to ARS or contract requirements. Contractor activities are adequately monitored. Payments were found to be authorized and consistent with contract terms.

### **4. LOBBYING BENCHMARKS**

Our survey of four other large southwestern U.S. counties found that Maricopa County spends less money for internal/external lobbying activities than the other counties. Clark (NV), San Diego (CA), and Orange (CA) counties spend 93% to 668% more than Maricopa County. The CAO office should review the comparative lobbying information, provided by the benchmark counties, and pursue implementation of any changes determined to be beneficial and consistent with ARS requirements and the County's mission and policies.

### **5. ADMINISTRATIVE ACTIVITIES**

Our review of important CAO office administrative functions found overall compliance with applicable County policies and adequate internal controls. We found minor control weaknesses over payroll processing and reviews of telecommunications equipment charges, increasing the risk of errors and employees making personal long distance calls undetected. The CAO office should strengthen controls in these areas.



## **COUNTY ATTORNEY 3/99 REPORT SUMMARY**

### **Effectiveness of Program Operations**

#### **1. ANALYSIS OF EXPENDITURES AND RELATED JOURNAL VOUCHERS**

During June 1998, OCA processed two journal vouchers totaling \$394,823, reportedly for the purpose of using a budget surplus to prevent losing funds; a violation of County policy. These transactions resulted in a negative impact on the County General Fund for Fiscal Year 1998 by the same amount. OCA should review/comply with County financial policies. Expenditure transfers, or possible compliance issues, should be referred to the Department of Finance (DOF) and Office of Management & Budget (OMB) for review and pre-approval.

### **Safeguarding of Resources**

#### **2. FIXED ASSETS**

Control weaknesses were found in OCA procedures relating to Fixed Assets. Assets totaling \$97,374 (8% of the total tested) could not be located. Such weaknesses can potentially lead to undetected loss of valuable County property. OCA management should continue efforts to locate missing assets, strengthen controls, and ensure compliance with applicable regulations and County policy.

#### **3. RICO FUND ADMINISTRATION**

A proper segregation of duties is lacking in RICO Fund administration. The functions of cash receiving, deposit preparation, disbursements, reconciliations, and recording of financial data all reside in one employee. A lack of proper safeguards could possibly result in opportunities for misappropriation of assets which may go undetected. OCA management should immediately implement procedures to ensure that a proper segregation of duties exists.

#### **4. CHECK ENFORCEMENT UNIT (CEF) - CASH HANDLING**

Improper segregation of duties exists in the processing of mail and walk-in customer receipts at the Check Enforcement Unit. During FY1998, the Unit processed funds totaling approximately \$1.8 million. The potential exists for funds to be misappropriated and possibly go undetected. Enhanced segregation of duties should be implemented by assigning the duties of opening mail, listing receipts, receiving receipts from walk-in customers, recording financial data, and preparing daily deposits to separate employees. OCA management should immediately implement procedures to ensure that a proper segregation of duties exists within these functions.

#### **5. PETTY CASH/CHANGE FUNDS/TELECOMMUNICATIONS**

Control weaknesses were noted in OCA procedures relating to Petty Cash/Change Funds and Telecommunications. Such weaknesses could potentially lead to increased risk of misuse, theft, and unauthorized access. OCA management should take action to strengthen controls, as detailed in this report, and ensure compliance with applicable regulations and County policy.

## **Report Summary (continued)**

### **6. REVENUE – TREATMENT ASSESSMENT SCREENING CENTER (TASC)**

A review of TASC program financial procedures disclosed that the non-profit agency has proper internal controls and segregation of duties in place, and are functioning properly.

### **Miscellaneous**

### **7. FINANCIAL REPORTING MANDATES**

OCA is not in compliance with ARS 13-1811 quarterly reporting requirements (Check Enforcement Fund). Such quarterly reports have not been filed with the Board of Supervisors (Clerk of the Board) as mandated for public access. OCA should begin preparing and filing these reports at the designated quarterly intervals, disclosing both the source and usage of funds to comply with the statute.

### **8. PRIOR AUDIT RECOMMENDATIONS**

OCA has not implemented the three recommendations from the review of County Counsel's Budget performed by Internal Audit in March 1997. Recommendations not implemented may result in lost opportunities for improvement of the County Counsel operations. OCA should consider implementing the recommendations contained in the March 1997 report and establish target dates.

### **Information Technology**

### **9. GENERAL CONTROLS REVIEW**

We performed a limited review of General Controls over the OCA Information Technology Division (ITD). We reviewed the physical security of the computer room, separation of duties, program change controls, user access security controls to the Finance Voucher system, and disaster recovery. We noted weaknesses in the following areas: disaster recovery, user access security controls, and ITD documentation. Management should strengthen controls in these areas to protect County data and systems from loss, unauthorized change, and potential business interruption.

## **ELECTED OFFICIALS – ENTRANCE-EXIT REVIEWS 5/99 FINDINGS AND RECOMMENDATIONS**

### **Wickenburg Justice Court**

#### **FINDING NO. 1 - Bank Reconciliations**

As of our site visit (4/2/99), bank reconciliations of the Trust Account for the Wickenburg Justice Court had not been completed. According to the Chief Clerk, she alone is unable to resolve the problems associated with the reconciliations. The last complete reconciliation was for the month of December 1998. The Chief Clerk has reportedly contacted Justice Court Administration for accounting assistance.

By not completing bank account reconciliations in a timely manner, the potential for misappropriation of funds exists.

#### **Recommendation**

The Court should reconcile their Trust Account to current status using whatever assistance they deem necessary.

### **East Phoenix #1, Central Phoenix, Scottsdale, and Wickenburg Justice Courts**

#### **FINDING NO. 2 - Cash Fund Custodians**

Our review disclosed that official records of the Department of Finance (DOF) for East Phoenix #1, Central Phoenix, Scottsdale, and Wickenburg Justice Courts indicate outdated employee names as cash fund custodians.

As the official record-keeper for the County, DOF should be kept informed of the correct employee name for each of the designated cash fund custodians. Failure to do so weakens accountability over cash.

#### **Recommendation**

The Chief Clerk of each Court should ensure that DOF is notified, in a timely manner, of any custodial changes to cash funds within their control.

## **HEALTH CARE MANDATES 3/99 REPORT SUMMARY**

### **1. HEALTH CARE MANDATES (HCM) FINANCIAL ACTIVITIES**

Our review of HCM's financial records (budgets, expenditures, reports, supporting documentation) found no significant exceptions to Arizona Revised Statutes and other requirements established by the State. HCM has significantly underbudgeted the County's Federal hospital subsidy (revenues and associated expenditures), which is inconsistent with the office's formal mission to accurately reflect HCM costs. To improve the accuracy of this budget item, HCM should utilize historical Federal hospital subsidies when preparing future budgets.

### **2. EXPENSES CHARGED TO HCM BUDGET**

Our examination of HCM funded expenditures found that \$828,000 was used to purchase computer hardware, software, and related items for the Department of Medical Eligibility. These costs were inappropriately recorded as HCM expenses for Arizona Medicaid program sanctions, mental health testimony, and medical eligibility lawsuits causing those costs to be overstated. HCM should prepare journal voucher entry corrections to post the Department of Medical Eligibility computer equipment purchases to the proper accounts.

### **3. WORK PROCEDURES**

Written work procedures have not been developed for the HCM Contract Administrator's job activities. Because the office is staffed by only one person, without an emergency back up, written work procedures are extremely important if the position were to unexpectedly become vacant. HCM should develop written work procedures for all significant work activities, updating procedures as necessary, and train an employee to perform the HCM Contract Administrator's job when necessary.

## HOUSING DEPARTMENT 6/99 REPORT SUMMARY

### **Year 2000 Readiness**

MCHD's current housing software system is not Year 2000 compliant. Conversion to a compliant system is behind schedule and no detailed implementation plan is available. Furthermore, MCHD has not completed any type of Year 2000 plan, inventory, or risk assessment for its embedded systems. Missed deadlines may interrupt business operations. MCHD should develop a conversion/implementation plan, develop a contingency plan if deadlines are not met, and adequately document its Year 2000 efforts.

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### **Segregation of Duties**

MCHD's information system functions are not adequately segregated, which can increase the likelihood of fraudulent activity and affect the integrity of the system's data. MCHD should review current information system operations to determine whether certain job functions can be reassigned to provide more effective segregation of duties.

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### **User Access Security Control**

User access security controls over MCHD's housing system are weak. Inadequate controls may allow unauthorized changes to MCHD data resulting in fraudulent activity or errors, and access to proprietary or confidential information. MCHD should limit user access based on job responsibilities.

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### **Backup and Disaster Recovery**

Based on a large volume of transactions, MCHD's current off-site rotation schedule for backup tapes does not appear adequate. Furthermore, MCHD does not have an Information Technology Disaster Recovery Plan. MCHD has no assurance that the department can recover from a major disaster or disruption in data processing capability. MCHD should consider increasing the frequency of off-site tape rotation and develop an Disaster Recovery Plan to ensure prompt recovery of its housing system.

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### **Benchmark Comparisons**

Our survey of six other large Western U.S. housing offices found that, while smaller, MCHD's programs and practices are consistent with the four responding agencies. Some operating differences were identified.

## REPORT SUMMARY (continued)

### **Telephone Billings and Employee Travel**

MCHD does not adequately review its telecommunication charges, as required by County policy. Our review found that MCHD had unknowingly paid for personal long distance calls (30 minutes-\$24.21) and another department's monthly phone line bill (one time for \$50.47). Incomplete reviews of long distance phone billings increases the risk that individuals can easily conduct personal long distance phone calls undetected, costing the department money and productive work time. MCHD should strengthen controls over telecommunication equipment charges

We found no significant exceptions to County travel policies during our review of MCHD employee travel expenses.

## JANITORIAL SERVICES CONTRACT 7/99 REPORT SUMMARY

<b>Contract Monitoring</b>	Periodic quality assurance inspections of janitorial services are not being performed in accordance with Facilities Management Department's (FMD's) schedule of requirements and inspection procedures. This raises the possibility that the County is not receiving the levels of janitorial service for which it is paying. FMD should develop and implement uniform monitoring procedures and schedules.
<b>Customer Satisfaction</b>	Overall, County departments appear to be satisfied with the level of janitorial services they receive. However, in 8 of 15, or 53% of the departments surveyed, respondents were unsure as to the level of service or schedule to expect. Departments are unable to properly monitor their services received if they are unaware of the specific contracted services and schedule. FMD should develop and implement uniform procedures to provide departments with service level and scheduling information.
<b>Lost Discounts</b>	During our review period, the County forfeited \$531 in early payment discounts due to late payment processing. Lost cash discounts have a negative impact on the County. Procedures should be strengthened to ensure that payments are processed within vendor terms, and that discounts are taken when offered.
<b>Quality Assurance</b>	Physical inspections of janitorial services performed at six County sites disclosed certain compliance exceptions. As a result of the review, \$55 will be deducted from future vendor billings related to these sites. Due to infrequent (or in some cases non-existent) quality inspections, the possibility exists that the County is paying for certain levels of service that have not been received. FMD should develop and implement uniform procedures on the level of expected janitorial services and related scheduling.
<b>External Benchmarking</b>	A survey of three benchmark counties and three local government entities found that Maricopa County's janitorial rates and terms are comparable to those of the other entities. No exceptions were noted.
<b>Procurement Policies</b>	Our review disclosed that services obtained through contracted janitorial vendors were procured in compliance with County policies. No exceptions were noted.

## MARICOPA INTEGRATED HEALTH SYSTEM CONTRACT#1 REPORT SUMMARY 5/99

<b>Payments Made After A Client's Death</b>	We found that MIHS overpaid nursing homes \$156,000 over a one-year period for services billed after clients' deaths. Our testing showed that only 28% of these overpayments were recovered. MIHS should strengthen prevention and detection procedures to curtail future overpayments.
<b>Claim Payment Discrepancies</b>	A 1998 MIHS report showed 95 claim payment irregularities including eight unrecovered overpayments totaling \$18,775. The report raised unresolved integrity issues of the claims processing system that could affect payment accuracy. MIHS should investigate and resolve these system issues.
<b>System Discrepancies</b>	We found client date of death discrepancies in the claim processing system data. Client date of death errors can result in incorrect payments and affect the revenue that MIHS receives from the State. One case may have cost the County \$108,000 in revenue. MIHS should ensure that system data are accurate and consistent.
<b>Claim Adjustments</b>	The nursing home claims processing system lacks the programming to handle certain MIHS payment policies. As a result, staff must perform numerous system bypasses and manual adjustments that can increase costs and compromise provider relations. MIHS should enhance its system to process claims in compliance with its policies.
<b>Manual Claims Payment Adjustments</b>	Adjustments to the nursing home claims processing system must be performed manually and the adjustment history is not kept on the system claim record. This automation limitation makes summary data difficult to retrieve and increases the potential for error, omission, and duplication. MIHS should enhance its system adjustment process.
<b>Incomplete Data Reporting</b>	MIHS submits incomplete provider service data to the State. As a result, the County risks fiscal sanctions and reduced revenue. MIHS should enhance its claim system to ensure the submission of accurate and complete provider service data to the State.



## Report Summary (continued)

<b>Bed Hold Policy</b>	We found that MIHS is paying claims in compliance with its bed hold policy (i.e., holding/reserving nursing facilities' bed while their client is in the hospital). Only minor exceptions were noted.
<b>Discounts Lost</b>	The County forfeited \$48,000 in cost savings as a result of MIHS not taking early payment discounts in FY99. MIHS should take steps to capture cost savings offered through early payment discounts.
<b>Prepayments</b>	MIHS issued prepayment checks (\$600,000 and \$750,000) to two vendors in order to procure discounts. Prepayments are prohibited by other governmental entities because they circumvent accounting controls and increase the risk of overpayment. County administration should consider developing a prepayment policy.
<b>Contract "Not to Exceed" Amounts</b>	We found payments that exceeded contract "not to exceed" (NTE) amounts. These payments were the result of inadequate systems controls and inconsistent monitoring. We found that in early FY99 MIHS paid \$874,000 and \$1,300,000 respectively in excess of two contracts' NTE amounts. Management should implement procedures to ensure that cumulative contractor payments do not exceed contract NTE amounts.
<b>Group Purchasing Organization Contract</b>	We found that MIHS' three-year \$66 Million Group Purchasing Organization agreement was not signed. Documentation on file with the Clerk of the Board included only the minutes showing approval of the item at a Board meeting. No contract/agreement had been forwarded to the Clerk's office for signature. Lack of a signed contractual agreement showing all key terms and conditions compromises the County's position in the event of a legal dispute. Materials Management should forward GPO documentation requiring Board signatures to the Clerk of the Board.

## MARICOPA INTEGRATED HEALTH SYSTEM CONTRACT #2

### REPORT SUMMARY 6/99

<b>Share of Cost</b>	<p>Nursing home residents who have income are required to contribute to the cost of their care; this contribution is called "Share of Cost." MIHS Share of Cost system errors have caused MIHS to overpay nursing homes. Based upon an audit sample we estimate the overpayments to be \$500,000 per year. It is our opinion that the majority of the overpayments have not been recovered and MIHS has not implemented adequate measures to correct these errors. MIHS should implement procedures to ensure system Share of Cost accuracy, in order to eliminate overpayments, and seek recovery for past overpayments.</p>
<b>Health Select</b>	<p>We found that MIHS maintained incorrect Health Select membership enrollment data from 1995 through 1999 for hundreds of members. These errors resulted in capitation overpayments for disenrolled and terminated employees, estimated to be \$600,000 over the 5-year period. The errors may have also afforded disenrolled and inactive employees improper access to health services and may have temporarily denied some active employees access to health services. MIHS should ensure future membership accuracy and seek overpayment recovery, to the extent feasible.</p>
<b>LARC</b>	<p>The County forfeited \$38,000 of interest earnings because MIHS neglected to bill the City of Phoenix for two years for FY97 Local Alcohol Rehabilitation Center (LARC) services' reimbursement. In addition, our review of County financial records shows that MIHS under-billed the City \$53,600 in 3/99 for FY97 services. MIHS should strengthen contract-monitoring controls to prevent future billing delays, and seek reimbursement for any additional funds deemed to be outstanding.</p>
<b>Required Care Plans</b>	<p>The County may be at risk for refunding the State up to \$255,000 per year for Home Health Aide service claims paid by MIHS that were not supported by federal and State required care plans. Home Health Aide services encompass tasks supervised by a registered nurse or therapist and are to be provided in accordance with a written physician-authorized plan of care (task specific instructions). MIHS should consider increasing its provider review efforts to ensure that required care plans are documented.</p>
<b>Post Claims Audit Process</b>	<p>MIHS lacks a strong post-payment claims audit process. This weakness increases the County's risk to overpay providers. MIHS should consider conducting routine claims audits including verifying that billed services were actually rendered.</p>

## Report Summary (continued)

### **Contract Monitoring**

We found that MIHS may have overcompensated one nursing home by paying \$3.86 additional per day for each MIHS resident client, from 10/1/95 to 9/30/98. The total amount of questioned payments are \$435,900. MIHS did not monitor the contract restrictions placed on these payments. MIHS should strengthen contract compliance monitoring and recover any payments made in error to the extent feasible.

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### **Encounter Data Returns**

Weak system edits caused the State to return 8.5% of MIHS' Long Term Care encounter (provider service) data for further research during 11/98 – 5/99 and 25% of MIHS' acute encounter data in 4/99. (The 25% acute encounter error was a one-time occurrence involving duplicate tapes.) MIHS' return rate is more than twice the 4% State average. Encounter return research takes up valuable staff time. MIHS should identify corrective measures and enhance systems edits to reduce its current large number of encounter returns.

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### **Encounter Errors**

Some encounter (provider service) data entry errors remain undetected because neither MIHS' nor AHCCCS' systems edit for these errors. Capitation (revenue) rates that the State pays MIHS may be compromised by these encounter data errors. MIHS should enhance data processing validations and edits, to catch anomalies prior to payment, and analyze encounter returns to better identify corrective measures.

## MCDOT CONSTRUCTION ADMINISTRATION CONTRACTS 6/99 REPORT SUMMARY

**Audit Objectives** We examined costs and fees billed to the Maricopa County Department of Transportation (MCDOT) by four firms of consulting engineers who provided construction administration services and strategic planning for various projects. The consulting work was conducted from fiscal years 1993 through 1996. The audits are required because of Federal participation funding. Page numbers of each audit report are indexed below.

**A-N West** Bell Road – 99<sup>th</sup> Avenue to New River Bridge  
(See Page 2)

Total Consultant Billings Reviewed	\$786,465
Total Questioned Costs	0

This is a negotiated lump sum contract.

**DMJM** Alma School Road Bridge Scour Protection  
(See Page 4)

Total Consultant Billings Reviewed	\$207,671
Total Questioned Costs	2,861

The questioned costs result from a difference between provisional and actual overhead rates.

**Greiner** Tuthill Road Bridge at Gila River Scour Protection  
(See Page 7)

Total Consultant Billings Reviewed	\$164,363
Total Questioned Costs	22,541

The questioned costs result from a difference between provisional and actual direct labor rates.

**Kimley-Horn** Intelligent Vehicle Highway System Strategic Plan  
(See Page 10)

Total Consultant Billings Reviewed	\$399,491
Total Questioned Costs	11,778
Total Unresolved Costs	13,208

## MICROCOMPUTERS CONTRACT 6/99 REPORT SUMMARY

**Contract Monitoring** Due to frequent market changes in hardware component pricing, a cost-plus contract is difficult to monitor and audit for compliance. Documentation supporting vendor invoices is inadequate to substantiate vendor costs and related mark-up percentages, as stipulated in the contract. Proper monitoring of the contract by the County is not presently taking place. Consideration should be given to abandoning the use of the State Procurement Contract. The County should work toward strengthening procedures to enable audits of vendor compliance. This, in turn, will enhance opportunities for ongoing monitoring activities.

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**Benchmarking Comparisons** A majority of the governmental entities selected for benchmarking reported use of a competitive bid process for computer equipment procurement. The County may not be receiving competitive pricing for its computer equipment through its use of the State Procurement cost-plus contract. The results of benchmarking activities are presented in detail for information only. No recommendation is made.

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**Vendor Overcharges** During our review, which included a random sample of payments to each of the vendors, it was found that three contract vendors had overcharged the County a total of \$4,227. Steps should be taken to ensure recovery of these County monies.

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**Year 2000 Compliance** The State Procurement Contract does not include language that defines the requirements for Year 2000 compliance. The lack of appropriate language leaves the County at risk of purchasing computer hardware/software that is not Year 2000 compliant. The Materials Management Department should ensure that, for whichever contract it plans to use, the Year 2000 compliance language is adequate.

## **RANDOM CASH COUNT AUDITS 4/99 MARICOPA COUNTY HOUSING DEPARTMENT (MCHD)**

Our random cash testing at two MCHD field offices found no internal control weaknesses or exceptions to applicable policies and procedures. Tenants' rent receipts reconciled to internal logs and bank deposit slips. MCHD has developed written procedures addressing rent receipts, deposits, and reporting activities. Additionally, petty cash balanced to the amount authorized and receipts show that funds are utilized for appropriate purposes.

MCHD's rent payment procedures require that public housing offices only accept checks and money orders made out to MCHD. Cash payments are not accepted. Rent payments are accepted from the first through the fifth of each month, without a late fee, and receipts must be deposited in the bank each day. MCHD's central office calculates tenants' monthly rent payments and sends notices to the tenants and rental offices, prior to the beginning of each month.

DOF records show that MCHD has established a \$250 petty cash fund from its federal grant funding source. The Coffelt and Avondale site rent clerks report, confirmed by MCHD management, that \$50 of the fund has been assigned to each office.

### **Rent Receipts**

Our examination of MCHD's Coffelt office rent receipts found that payments were made with money orders and equaled the amount listed in MCHD's April rental notices. A copy of each receipt was attached to the individual rental notices. The total amount collected reconciled to the receipts total and bank deposit slip.

We also observed several tenants' checks/money orders for current day rent payments that had not yet been deposited in the bank. The checks and money orders were made out to MCHD and were restrictively endorsed by the MCHD rent clerk. The clerk had issued receipts and attached copies to tenants' rental notices. No exceptions were found.

### **Petty Cash**

We counted the petty cash at both offices and found that cash and receipts equaled \$50; the amount authorized. Funds are kept in secure areas at both office locations. No exceptions were found.

### **Recommendation**

None, for information only.

## **RANDOM CASH COUNT AUDITS 4/99 CLERK OF THE SUPERIOR COURT (COSC)**

We noted no internal control weaknesses or exceptions to applicable policies and procedures while physically observing two internal COSC random cash audits. Individual and total cash receipts, for both cash and check payments, reconciled to the amounts reported by the COSC's automated cash register system. The office has developed comprehensive written cash handling procedures, conducts surprise cash counts on a regular basis, and prepares written reports of the results.

COSC cashiers collect court ordered payments (restitution, fines, fees, etc.) from the public at various office locations. Each cashier has been given a change fund. The COSC has established formal cashing policies and procedures. At any time, the total amount of cash and checks in each cash register should equal the amount of the daily receipts less the change fund.

The COSC's Quality Assurance Auditor performs unannounced random cash counts at each cash register, on a regular basis. We accompanied the auditor on April 1, 1999 and observed the employee conduct cash counts at two civil payment cash registers, with the cashier present. In each test the total of cash and checks, less the change fund, equaled the amount of the receipts and the total reported by the automated cash register. All checks were made out to the COSC and were restrictively endorsed. No exceptions were found.

Additionally, the Quality Assurance Auditor explained and demonstrated automated controls that had been installed for the COSC. These include:

- Software built into each cash register screen that automatically reconciles cash and check payments, by entering the receipt number
- Automated calculation of receipt sub-totals, by cash and check payments
- Results of previous cash counts, conducted during the last five years, for each cashier.

The COSC Quality Assurance Auditor also maintains a log of random cash count results and issues reports of findings to management. The records show that random cash counts are conducted on a quarterly basis, for each cashier.

### **Recommendation**

None, for information only.

## RECORDER'S OFFICE INFORMATION SYSTEMS REPORT SUMMARY 6/99

### **Program Changes**

When changes need to be made to a system, controls need to ensure that changes are properly authorized, tested, and approved. While a formal methodology exists for making program changes, it is currently not being utilized for changes made to the Recorder's Office system. As a result, the risk of unauthorized program changes being made is increased. The office should follow department procedures for making changes to programs and data.

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### **Year 2000 Readiness**

The Recorder's Office Year 2000 compliance efforts are progressing well. The office should ensure that documentation of Year 2000 efforts is complete.

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### **User Access Controls**

The Recorder's Office does not have a documented information security policy; users are not held accountable for the integrity and security of their data. The office should strengthen user access controls to ensure that programs and data are protected from unauthorized change and destruction.

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### **System Security**

After making some recommended changes by an external consulting firm, the Recorder's Office systems appear to be adequately configured to reduce the risk of penetration from external sources. All internal systems that provide Internet-related services were reviewed. The consultant's work was limited to operating system security.

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### **Segregation of Duties**

The Recorder's Office Information Systems functions are not adequately segregated. Several system users have been granted system rights that should be kept separate from one another. This lack of segregation of duties may result in unauthorized program changes and/or destruction to Recorder's Office programs and data. The office should review these risks and take appropriate action.

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### **Physical Security**

Sensitive computer equipment is not appropriately secured or not adequately protected against potential damage. Access to the Recorder's Office computer room is not restricted solely to staff needing job-related access. The office should restrict access to the computer room.



## Report Summary (Continued)

### **Business Recovery**

The Recorder's Office computer system back-up and recovery process and continuity planning process need improvement. The office may incur substantial losses if computer processing and general business operations are not restored in a timely manner should a disaster occur. The Recorder's Office should take appropriate steps to improve its system recovery processes.

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### **Benchmark Comparison**

Maricopa County is the only Recorder's Office in our study that had original copies of documents available for viewing over the Internet. Counties that allow customers to order copies of documents over the Internet or by phone using a credit card reduced wait time from approximately two weeks to two days.

## SUPERINTENDENT OF SCHOOLS 6/99 REPORT SUMMARY

<b>School District Processing</b>	The County Superintendent of Schools (CSS) effectively processes payroll vouchers and warrants for over 15,000 employees in 41 districts each pay period. The CSS effectively processes 2 payable voucher runs for each district weekly, with a combined annual budget of over \$1 billion dollars. Warrant processing is a major function of the CSS directly involving 19 of the 29 employees in the CSS office.
<b>School District Elections</b>	The CSS effectively administers school district elections in compliance with Arizona Revised Statutes. The CSS effectively works with the Elections Department to administer School Board Member elections as well as Bond, Budget Override, and Member Recall Elections for all school districts in Maricopa County.
<b>Fund Reconciliations</b>	The CSS accurately completes a monthly reconciliation of its records with the records of the County Treasurer. However, as of the end of audit fieldwork, reconciliation of School District fund balances to County Treasurer's records is complete only through October 1998. The CSS should continue with efforts in place to bring reconciliations current.
<b>Segregation of Duties</b>	A key component of an effective internal control system is adequate segregation of duties between the physical custody of assets and the record keeping responsibility for those assets. The CSS Garnishment Clerk performs the functions of cash receiving, cash disbursement, deposit preparation, and the recording of financial data. The CSS should delegate the function of garnishment record keeping to someone who does not have physical custody of garnishment cash receipts or cash disbursements.
<b>Telecom Equipment Usage</b>	Maricopa County Policy requires the review of telecom charges and prohibits personal use of County phone equipment. The CSS office does not perform a detailed review of telecom charges. The CSS office allows for personal use of phone equipment with reimbursement to the County. The CSS should follow County policy and, in addition, reimburse the County for unidentified personal use of telecom equipment.

## Report Summary (Continued)

### **Leave Documentation**

Documentation of Family Medical Leave (FML) qualifying events should be maintained for all leaves that receive FML pay. CSS employees received Family Medical Leave (FML) pay in instances where the FML-qualifying event is not clearly apparent. The CSS should maintain department files with documentation sufficient to determine that a leave qualifies for FML pay.

## WASTE TIRE RECYCLING CONTRACT 6/99 AUDIT REPORT

**Summary** Affidavits from vendors are the County's proof that waste tires are actually recycled according to the twelve (12) mandated methods of waste tire disposal (ARS 44-1304). Based on our review, the vendors appear to be in compliance with contract pricing and billing. Reasonable assurance is provided that the County is receiving the services it has paid for. However, \$37,000 in discounts have been taken, but not allowed per contract terms.

**Compliance** Contract terms stipulate that vendors will be reimbursed 60% of the contract price for picking-up waste tire tonnage. The remaining 40% will be paid only after an affidavit is attached to the billings, attesting that the tires have been recycled.

The County receives affidavits from vendors as proof that waste tires are actually recycled according to the twelve (12) mandated methods of waste tire disposal (per ARS 44-1304). When submitting their invoices, the vendors attach an affidavit certifying that they have recycled Maricopa County's tonnage.

One vendor handles the majority of the County's waste tire disposal. The tires ultimately are crumbled for resale as an additive for asphalt.

**Accounting** For each of eight (8) invoices reviewed, the manifest tonnage matched tonnage billed; the tonnage on the affidavits matched both the invoice and the manifests. Vendors appear to be complying with the contract in relation to contract pricing and required billing documentation.

The Contract Monitor (Director of Solid Waste Management) has proactively negotiated a verbal agreement with the three vendors for a discount on billings was paid within 15 days. As a result of his efforts, the County has saved in excess of \$37,000 during this contract year. However, since the contract does not include the provision for discounts, the County could potentially be liable for more than \$37,000.

**Benchmarking** Benchmarking was conducted using input received from San Diego County, CA, Pima County, AZ, Orange County, CA, Clark County, NV, King County, WA, and Multnomah County, OR. However, we found that differences in the counties' methods of handling and disposing of waste tires made comparison of monitoring efforts and related statistics difficult. Therefore, no meaningful conclusions could be formed.

**Recommendation** While the Department Director should be commended for being proactive in obtaining discounts, contract language should be amended to define the taking of discounts to avoid potential future liability to the County.